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C O N F I D E N T I A L SECTION 01 OF 03 BAGHDAD 003516

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E.O. 12958: DECL: 09/14/2026

TAGS: ENRG EPET PBIO PREL IZ

SUBJECT: MINISTER OF ELECTRICITY KARIM WAHID HASAN ON  
HYDROCARBON LAW, ELECTRICAL SECTOR, BUDGET AND ICI

REF: BAGHDAD 3341

Classified By: CDA DANIEL SPECKHARD, EO 12958, REASONS 1,5 (B) AND (D)

1.(C) Summary: On September 13, Econ Mincouns met with Minister of Electricity Dr. Karim Wahid Hasan to discuss the hydrocarbon law, the state of the electrical sector in Iraq, Iraq's budget implementation difficulties and the International Compact for Iraq. Hasan confirmed that the Energy Committee had agreed on four major elements of a hydrocarbon law, but was unable to agree on what government level should have final contract approval authority for development of new oil fields. On this and several other issues he was critical of Minister of Oil Shahristani, characterizing him as ill-suited to lead GOI development of the law. Hasan did not believe that agreement on the law would come unless there was a resolution of the Kurd's interpretation of their rights under the constitution. Ultimately the law will have to be settled by politicians - it cannot be resolved by oil experts. Hasan, an electrical industry expert, quickly raised daily peak output from 3700 megawatts (MW) to 5000 MW after taking office 4 months ago. He blames insurgent activity for preventing him from going further, and now estimates that it will take 3-4 more years to meet peak demand of 9,600 MW. Hasan blames Iraq's budget problems on the reluctance of ministry managers to authorize expenditures for fear of being caught up in Iraq's anti-corruption machinery. He characterized the Committee for Public Integrity (CPI, the principal anti-corruption organization in Iraq) as inexperienced and arbitrary. He noted that officials are afraid to be interrogated by CPI's investigators, and inaction is the safest way to avoid such questioning. End Summary.

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Hydrocarbon Law  
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2.(C) On September 13, Economic Minister-Counselor met with Dr. Karim Walid Hasan, Minister of Electricity. Hasan is also a member of the Energy Committee, the group of ministerial level officials tasked with formulating a national hydrocarbon law. Hasan confirmed what other interlocutors have told us, i.e. that the committee has reached consensus in four areas: national policy setting; central collection and sharing of revenue; management of fields by regional companies, and regional negotiation of contracts. The group still disagreed on who would have final authority to sign contracts for exploitation of new oil fields (reftel).

3.(C) Hasan believes that it is possible to reach consensus on a national oil law. Nevertheless, he sees a number of difficulties that still must be resolved in addition to the contract approval issue. The toughest problem is the fundamental mistrust among Shia, Kurd and Sunni that underlies all parts of the negotiation. The Kurds adamantly

assert that their positions on the hydrocarbon law are based on their constitutional rights, which they will not dilute via the new law. Hasan said that the Kurds narrowly focus on 2-3 constitutional articles (Articles 114 and 115). In his opinion the hydrocarbon law needs to be developed in the context of the whole constitution (especially Article 111).

4.(C) Despite the agreement in principle on central revenue collection, Hasan said the Kurds are being unreasonable. Kurdish insertion of regional rights into the revenue debate exacerbates the Sunnis' nervousness that they will somehow get nothing. Hasan, a Shia (his wife is a Sunni), referred to the historical background underlying the constant mistrust among the ethnic/sectarian groups. He said that a unified Iraq is the only solution, and added that before anyone could dismantle Iraq, civil war would occur. In addition to ethnic mistrust, Hasan said that many employees of MoO, who have run the oil industry for the past 30 years as a centralized entity, are reluctant to see a shift to largely independent regional operating companies.

5.(C) Hasan characterized Minister of Oil Dr. Husayn Shahristani as uncooperative, citing four instances over the past year when MoO raised fuel prices to the MoE without bothering to consult his ministry first. Hasan clearly preferred oil advisor to the Prime Minister and former oil minister Thamir Ghadban. Hasan said that Deputy Prime Minister and energy committee chairman Barham Salih was very clever, but not well organized. Dr. Ashti Hawrami, KRG Minister of Natural Resources, on the other hand, is part of a government that has been preparing for this hydrocarbon law for years. (In a recent meeting, Ashti told emboff that Hasan was the minister who finally got tired of the sectarian bickering in the energy committee meeting and brought

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everyone back on track to start hammering out a compromise.) Hasan said that the ministry and government have the best people in Iraq to deal with the hydrocarbon law issue. Unfortunately, he said, they have never gotten together to undertake this task, leaving the door open to the better organized Kurds who prepared a road map for the GOI to follow for the Kurds benefit. Hasan said that compromise with the Kurds will be necessary to get a law. He emphasized that the ultimate solution will have to come from the politicians - this issue can not be solved by oil industry professionals. Hasan said that "if both sides stay hard," he is worried. He said that the Shia have made some concessions, but that the contract signing authority impasse is fundamental.

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Electric Power Sector  
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6.(C) Hasan gave a brief overview of the last 30 years in his industry. The Iraqis implemented a master development plan in 1976, but it was interrupted by the Iraq-Iran war from 1981-1988. At the end of the war, the country was carrying a huge debt, and did not restart the development plan until 1989. The first Gulf War and the ensuing sanctions began a 13 year period of deterioration, leading to the present "technically weak" power sector unable to deliver much more than half of daily demand. Hasan described his distribution system as especially weak, and said MoE's control centers were destroyed in the war (for the second time).

7.(C) Hasan has held his ministerial post for about 4 months. In his first 45 days in office, Hasan raised daily peak power supply from 3,700 megawatts (MW) to 5,400MW. His goal for August was 6,000MW, but he has been unable to reach that level because of insurgent attacks on MoE's infrastructure. He estimated that attacks on his plants and transmission lines were 80% political and 20% economic (e.g., destroying transmission lines to steal wire for sale as scrap metal). Hasan said the GOI needs to generate 9,600MW to meet daily peak demand. He expects to reach that level by 2009-2010.

To do so will require \$2-3 billion annually in capital expenditures. MoE has produced a 10-year master development plan covering training, economic and legal issues, as well as basic generation, transmission (high voltage, cross-country power lines) and distribution (low voltage neighborhood power lines) systems upgrades. IRMO electrical consultants characterize the master plan as overly optimistic with respect to the time required to restore Iraq to 24hr/day power. They estimate it will take 5-10 years.

8.(C) Hasan said that he was one of only two ministers that is not affiliated with a party, a fact which, he implied, may have limited his influence with the prime minister. He said that Maliki respects him and sometimes consults with him, but does not often follow his advice. He has advised PM Maliki that the country really needs a joint master plan for oil and electricity.

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GOI Budget Problem  
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9.(C) Hasan attributed the GOI's problem in spending its budget dollars on big projects to the fear that has accompanied the government's anti-corruption campaign. He said the Commission on Public Integrity (CPI, the agency charged with investigating and prosecuting corruption) has no experience, takes actions that are "sometimes silly," and may be corrupt itself. As a result workers are very reluctant to resume contracting activity for fear of being interrogated by CPI. Hasan said that it is necessary to change the budget rules immediately to streamline the procurement process, and let the experts take charge. He added that at this point too many dollars are being diverted to security. Hasan also stated that the Letter of Credit system needs to be fixed.

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Comment  
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10.(C) Hasan comes across as a candid technocrat, dedicated to doing his job of improving the power supply to the general public. He also expressed some bitterness about the way he was treated under the CPA (no salaries for ministry employees for the first several months). Nevertheless, given his background he is a good source on the politics of energy policy here as we enter the critical phase of hydrocarbon law development.

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Biographical Information

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11.(C) Hasan holds a Ph.D. in Electric Power Engineering from the University of Dundee in the U.K., and has worked in the electrical power sector for years. Previously he was the Director General of Dura Power Station and Technical Director of the Iraq Electricity Commission. He never lived in exile, a fact which helps his public image in Iraq. His family, however, lives in Jordan.

SPECKHARD